

BROWN FORMAN CORP

FORM 10-Q (Quarterly Report)

Filed 12/13/1996 For Period Ending 10/31/1996

Address	850 DIXIE HWY LOUISVILLE, Kentucky 40210
Telephone	502-585-1100
CIK	0000014693
Industry	Beverages (Alcoholic)
Sector	Consumer/Non-Cyclical
Fiscal Year	04/30

United States Securities and Exchange Commission

Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended October 31, 1996

Commission File No. 1-123

BROWN-FORMAN CORPORATION

(Exact name of Registrant as specified in its Charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

61-0143150
(IRS Employer
Identification
No.)

850 Dixie Highway
Louisville, Kentucky
(Address of principal executive offices)

40210
(Zip Code)

Registrant's telephone number, including area code (502) 585-1100

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable

date: November 27, 1996

Class A Common Stock (voting)	28,988,091
Class B Common Stock (nonvoting)	40,008,147

BROWN-FORMAN CORPORATION
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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

BROWN-FORMAN CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF INCOME
(Unaudited)

(Expressed in millions except per share amounts)

	Three Months Ended		Six Months Ended	
	October 31,		October 31,	
	1996	1995	1996	1995
	----	----	----	----
Net sales	\$525.6	\$518.2	\$950.0	\$928.7
Excise taxes	69.3	76.3	128.5	134.7
Cost of sales	200.9	193.3	353.9	342.0
	-----	-----	-----	-----
Gross profit	255.4	248.6	467.6	452.0
Selling, general, and administrative expenses	96.9	99.3	190.0	187.7
Advertising expenses	65.1	59.3	128.5	117.2
	-----	-----	-----	-----
Operating income	93.4	90.0	149.1	147.1
Interest income	.6	.6	1.2	1.3
Interest expense	4.7	5.2	8.8	10.7
	-----	-----	-----	-----
Income before income taxes	89.3	85.4	141.5	137.7
Taxes on income	33.9	32.2	53.8	52.4
	-----	-----	-----	-----
Net income	55.4	53.2	87.7	85.3
Less preferred stock dividend requirements	.1	.1	.2	.2
	-----	-----	-----	-----
Net income applicable to common stock	\$ 55.3	\$ 53.1	\$ 87.5	\$ 85.1
	=====	=====	=====	=====
 Weighted average number of common shares outstanding	69.0	69.0	69.0	69.0
Per common share:				
Net income	\$.80	\$.77	\$ 1.27	\$ 1.23
	=====	=====	=====	=====
Cash dividends paid	\$.260	\$.248	\$.520	\$.496
	=====	=====	=====	=====

See notes to the condensed consolidated statements.

BROWN-FORMAN CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEET
(Expressed in millions)

	October 31, 1996 ----- (Unaudited)	April 30, 1996 -----
Assets		

Cash and cash equivalents	\$ 30.2	\$ 53.9
Accounts receivable, net	331.5	256.9
Inventories:		
Barreled whisky	160.5	167.1
Finished goods	172.4	168.5
Work in process	85.9	58.5
Raw materials and supplies	42.9	38.5
	-----	-----
Total inventories	461.7	432.6
Other current assets	28.7	24.1
	-----	-----
Total current assets	852.1	767.5
Property, plant, and equipment, net	287.4	281.2
Intangible assets, net	258.5	258.5
Other assets	76.1	74.3
	-----	-----
Total assets	\$1,474.1	\$1,381.5
	=====	=====
Liabilities		

Commercial paper	\$ 50.0	\$ 50.0
Accounts payable and accrued expenses	234.3	222.9
Current portion of long-term debt	6.7	6.0
Accrued taxes on income	1.1	2.6
Deferred income taxes	21.4	21.4
	-----	-----
Total current liabilities	313.5	302.9
Long-term debt	238.3	211.4
Deferred income taxes	132.3	126.6
Postretirement benefits	53.3	52.2
Other liabilities and deferred income	48.1	54.2
	-----	-----
Total liabilities	785.5	747.3
Stockholders' Equity		

Preferred stock	11.8	11.8
Common stockholders' equity	676.8	622.4
	-----	-----
Total stockholders' equity	688.6	634.2
	-----	-----
Total liabilities and stockholders' equity	\$1,474.1	\$1,381.5
	=====	=====

Note: The balance sheet at April 30, 1996 has been taken from the audited financial statements at that date, and condensed.

See notes to the condensed consolidated statements.

BROWN-FORMAN CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

(Expressed in millions; amounts in brackets are reductions of cash)

	Six Months Ended October 31,	
	1996	1995
Cash flows from operating activities:		
Net income	\$ 87.7	\$ 85.3
Adjustments to reconcile net income to net cash provided by (used for) operations:		
Depreciation	20.2	18.1
Amortization of intangible assets	4.6	4.5
Deferred income taxes	5.8	13.4
Other	(4.4)	(8.7)
Changes in assets and liabilities:		
Accounts receivable	(74.6)	(90.7)
Inventories	(29.2)	(32.9)
Other current assets	(4.6)	.8
Accounts payable and accrued expenses	11.4	20.6
Accrued taxes on income	(1.5)	2.0
	15.4	12.4
Cash flows from investing activities:		
Additions to property, plant, and equipment, net	(26.4)	(28.1)
Other	(4.2)	(.2)
	(30.6)	(28.3)
Cash flows from financing activities:		
Commercial paper	33.2	2.7
Proceeds from long-term debt	1.1	30.0
Reduction of long-term debt	(6.7)	(5.6)
Cash dividends paid	(36.1)	(34.5)
	(8.5)	(7.4)
Net decrease in cash and cash equivalents	(23.7)	(23.3)
Cash and cash equivalents, beginning of period	53.9	62.5
Cash and cash equivalents, end of period	\$ 30.2	\$ 39.2

See notes to the condensed consolidated statements.

BROWN-FORMAN CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED STATEMENTS
(Unaudited)

1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated statements have been prepared in accordance with the company's customary accounting practices as set forth in the company's 1996 annual report on Form 10-K and have not been audited. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary for a fair presentation of this information have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the company's April 30, 1996 annual report on Form 10-K. To conform to the current year presentation, certain reclassifications have been made to prior year condensed consolidated statements.

2. INVENTORIES The company uses the last-in, first-out method for determining the cost for substantially all inventories. If the last-in, first-out method had not been used, inventories would have been \$93 million and \$85 million higher than reported at October 31, 1996, and April 30, 1996, respectively.

3. ENVIRONMENTAL The company, along with other responsible parties, faces environmental claims resulting from the cleanup of several waste deposit sites. The company has accrued its estimated portion of cleanup costs and expects other responsible parties and insurance coverage to cover the remaining costs. The company believes that any additional costs incurred by the company will not have a material adverse effect on the company's financial condition or results of operations.

4. CONTINGENCIES In the normal course of business, various suits and claims are brought against the company, some of which seek significant damages. Many of these suits and claims take years to adjudicate and it is difficult to predict their outcome. In the opinion of management, based on advice from legal counsel, none of these suits or claims will have a material adverse effect on the company's financial position or results of operations.

Item 2. Management's Discussion and Analysis of Financial

Condition and Results of Operations

The following Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the company's April 30, 1996 annual report to stockholders. The results of operations for the six months ended October 31, 1996, are not necessarily indicative of the operating results for the full year.

Risk Factors Affecting Forward-Looking Statements From time to time, Brown-Forman may make forward-looking statements related to its anticipated financial performance, business prospects, new products, and similar matters. Such statements are not a guarantee that the results indicated will actually be achieved.

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. To comply with the terms of the safe harbor, the company notes that the following non-exclusive list of important risk factors could cause actual results and experience to differ materially from the anticipated results or other expectations expressed in those forward-looking statements.

Generally: The company operates in highly competitive markets. Its business is subject to changes in general economic conditions, changes in consumer preferences, the degree of acceptance of new products, and the uncertainties of litigation. As our business continues to expand outside the U.S., our revenues are more exposed to foreign exchange rate fluctuations and the health of foreign economies.

Beverage Risk Factors: The U. S. beverage alcohol business is highly sensitive to tax increases; an increase in the federal or state excise tax (which the company does not anticipate at this time) would depress our domestic beverage business. Our current outlook for our domestic beverage business anticipates: (a) continued success of Jack Daniel's Tennessee whiskey, Southern Comfort, and our other core spirits brands; and (b) a decline from last year in profit from our pre-blended frozen drink product lines. Current expectations from our foreign beverage business could prove to be optimistic if economic conditions deteriorate in the principal countries where the company exports its beverage products, including Germany, the United Kingdom, Japan, and Australia.

Consumer Durables Risk Factors: Earnings projections for our consumer durables business anticipate a continued strengthening of our Lenox business. These projections could be offset by factors such as poor consumer response rates at Lenox Collections, soft demand for Lenox products at outlet malls and department stores, or further department store consolidation.

Results of Operations

Second Quarter Fiscal 1997 Compared to Second Quarter Fiscal 1996

A summary of operating performance follows (expressed in millions, except percentage and per share amounts):

	THREE MONTHS ENDED		
	OCTOBER	31,	%
	1996	1995	CHANGE
	----	----	-----
Net Sales			
- - - - -			
Wines & Spirits	\$ 373.9	\$ 364.3	3
Consumer Durables	151.7	153.9	(1)
	-----	-----	
Total	\$ 525.6	\$ 518.2	1
Operating Income	\$ 93.4	\$ 90.0	4
- - - - -			
Net Income	\$ 55.4	\$ 53.2	4
- - - - -			
Earnings Per Share	\$ 0.80	\$ 0.77	4
- - - - -			
Effective Tax Rate	38.0%	37.7%	
- - - - -			

Sales of the company's wines and spirits increased 3% for the quarter. Higher volumes of Jack Daniel's in international markets and increased sales of the company's premium table wines more than offset a decline in sales of Tropical Freezes. Although second year sales of Tropical Freezes have been significantly below last year's introductory levels, the brand continues to represent a viable entry in the company's low-alcohol portfolio. Revenues from the consumer durables segment declined 1% in the second quarter, reflecting a planned contraction of the Lenox Collections business, as well as lower sales of china and crystal to department and specialty stores.

Second quarter operating income was up 4%. Increased profitability within the consumer durables segment reflected aggressive cost-cutting efforts within the company's restructured Lenox Collections unit. Strong volume gains for Jack Daniel's internationally helped the wines and spirits segment, while earnings were negatively affected by lower sales and higher costs associated with the company's pre-blended frozen drinks, increased grape costs, and continued investment in developing international markets.

Net interest expense declined reflecting both lower debt levels and lower average rates for commercial paper borrowings.

Six Months Fiscal 1997 Compared to Six Months Fiscal 1996

A summary of operating performance follows (expressed in millions, except percentage and per share amounts):

	SIX MONTHS ENDED		
	OCTOBER 1996	OCTOBER 31, 1995	%
	-----	-----	-----
Net Sales			

Wines & Spirits	\$698.2	\$662.1	5
Consumer Durables	251.8	266.6	(6)
	-----	-----	
Total	\$950.0	\$928.7	2
Operating Income	\$149.1	\$147.1	1

Net Income	\$ 87.7	\$ 85.3	3

Earnings Per Share	\$ 1.27	\$ 1.23	3

Effective Tax Rate	38.0%	38.1%	

A 5% increase in revenues from wines and spirits was attributable to strong sales of Jack Daniel's worldwide and higher sales of the company's premium table wines. Segment sales growth was partially offset by lower sales of Tropical Freezes, which were significantly below last year's introductory levels. Consumer durable revenues were down 6%, due primarily to the planned contraction of Lenox Collections.

Brown-Forman's first half operating income increased 1%. Improved profitability of the consumer durables was largely the result of aggressive cost-cutting efforts within the company's restructured Lenox Collections unit. Wines and spirits segment results benefited from worldwide sales gains for Jack Daniel's Tennessee Whiskey, which continues to grow at double-digit rates outside the United States. Profit growth from strong consumer demand for Brown-Forman's premium wine brands has been tempered by increased grape costs. First half profits from wines and spirits were negatively affected by lower sales and higher costs associated with the company's pre-blended frozen drinks and by the cost of continually pursuing international marketing and partnership opportunities in developing beverage markets.

Net interest expense declined, reflecting both lower debt levels and lower average rates for commercial paper.

Positive trends within the wines and spirits segment are expected to lead to improved period-to-period earnings comparisons during the second half of the year and a moderate increase in full year earnings.

Financial Condition at October 31, 1996 Compared to Financial Condition at April 30, 1996

The company's activities in the first half ended October 31, 1996 resulted in a net decrease in cash and cash equivalents. Cash provided by operating activities was comparable to last year. Additions to property, plant, and equipment largely reflect the company's plans to upgrade and expand production facilities in the wines and spirits segment. Net commercial paper increased \$33 million, proceeds of which were used for debt retirement and other general corporate purposes. Total net working capital increased 16% from April 30, 1996 to \$539 million.

Dividends

The Board of Directors increased the quarterly cash dividend 3.9% from \$.26 to \$.27 per share on Class A and Class B common stock payable January 1, 1997. As a result, the indicated annual cash dividend per share rose from \$1.04 to \$1.08 per share.

Environmental

The company, along with other responsible parties, faces environmental claims resulting from the cleanup of several waste deposit sites. The company has accrued its estimated portion of these cleanup costs and expects other responsible parties and insurance coverage to cover the remaining costs. The company believes that any additional environmental defense costs it incurs will not have a material adverse effect on the company's financial condition or results of operations.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Expansion Plus, Inc. v. Brown-Forman Corporation, et al., (United States District Court for the Southern District of Texas, Houston Division, Civil Action No. H-94-3498.)

As previously reported, in 1988, Brown-Forman purchased a start-up credit card processing business from Expansion Plus, Inc. ("EPI"), which Brown-Forman developed into a much larger business and sold in 1993 for \$31,250,000. Several months after the sale, EPI claimed that Brown-Forman never acquired full title to the credit card processing business, was obligated to return all or part of it to EPI, and that the sale of the business to a third party represented a conversion of assets owned by EPI.

In October, 1994, EPI filed a tort action against Brown- Forman and the purchaser of the business alleging conversion of property, tortious interference with contractual relationships, misappropriation of trade secrets and breach of a confidential relationship and seeking damages of \$31,250,000 plus punitive damages in an amount ten times actual damages.

On May 21, 1996, a Magistrate Judge entered a Memorandum and Recommendation that all of EPI's tort claims against Brown- Forman be dismissed. EPI filed Objections to the Magistrate's Recommendation and moved to amend its complaint to include a breach of contract claim. By Orders of September 30, the District Judge overruled EPI's motion to amend its complaint and directed the Magistrate Judge to reconsider parts of the Recommendation in light of new arguments raised by EPI. On November 20, the Magistrate Judge entered a Supplemental Memorandum and Recommendation that all of EPI's claims against Brown-Forman be dismissed. EPI has filed Objections to the Supplemental Recommendation which will be considered by the District Judge. The trial, previously scheduled for September, 1996, has been postponed indefinitely.

In the opinion of management, and based upon the advice of legal counsel, the disposition of this suit will not have a material adverse effect on the company's consolidated financial position or results of operations.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

Exhibit Number -----	Exhibit -----
27	Financial Data Schedule

(b) Reports on Form 8-K:

1.) There were no reports on Form 8-K filed during the quarter ended October 31, 1996.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BROWN-FORMAN CORPORATION (Registrant)

Date: December 11, 1996

By: /s/ Steven B. Ratoff

*Steven B. Ratoff
Executive Vice President and
Chief Financial Officer
(On behalf of the Registrant and
as Principal Financial Officer)*

ARTICLE 5

This schedule contains summary financial information extracted from the company's July 31, 1996 Form 10-Q and is qualified in its entirety by reference to such financial statements.

MULTIPLIER: 1,000,000

PERIOD TYPE	6 MOS
FISCAL YEAR END	APR 30 1997
PERIOD END	OCT 31 1996
CASH	30
SECURITIES	0
RECEIVABLES	332 ¹
ALLOWANCES	0 ¹
INVENTORY	462
CURRENT ASSETS	852
PP&E	620
DEPRECIATION	333
TOTAL ASSETS	1,474
CURRENT LIABILITIES	314
BONDS	238
COMMON	677
PREFERRED MANDATORY	0
PREFERRED	12
OTHER SE	0
TOTAL LIABILITY AND EQUITY	1,474
SALES	950
TOTAL REVENUES	950
CGS	482 ²
TOTAL COSTS	482
OTHER EXPENSES	0
LOSS PROVISION	0
INTEREST EXPENSE	8
INCOME PRETAX	142
INCOME TAX	54
INCOME CONTINUING	88
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	88
EPS PRIMARY	1.27
EPS DILUTED	1.27

¹ Accounts receivable is shown net of allowance for doubtful accounts. Allowance for doubtful accounts has not changed materially from the April 30, 1996 balance.

² Cost of goods sold and total costs include excise taxes of \$129 million.

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